OFFICE OF THE STATE BUDGET
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Michigan Public School Employees' Retirement Reform

Background

The Michigan Public School Employees' Retirement System (MPSERS) has over 454,500 members – 171,900 current retirees and beneficiaries, and 282,600 active employees. The MPSERS contribution rate will increase by nearly 2.5% for fiscal year 2011, which will cost local school districts an estimated $255 million in additional retirement obligations. This rate is expected to continue to increase over the next five years due to recent declines in membership and significant investment losses in 2008 and 2009.

The MPSERS offers a range of retirement plans, requiring varying levels of employee contributions. Approximately 39,000 plan members are currently eligible to retire. While several MPSERS reforms were enacted in 2008, many of the provisions were prospective only, and did not affect the traditional, more costly plans of which many of the eligible retirees are members. These employees generally earn higher salaries, and some are in pension plans that require no employee contributions.

Proposal

In order to ensure the financial sustainability of the MPSERS, several reform initiatives are being proposed:

- Eliminate the subsidy for **retiree dental/vision coverage** for employees retiring after October 1, 2010. Future retirees will still be able to buy coverage in the public school retirees' plan, but at their own cost.

- **Increase employee contributions by 3%** for all employees except for those whose contributions were increased by 2.1% in 2008. These members' contributions will increase by 0.9%. These increases will take effect on July 1, 2010.

- **Cap PSERS plan service credit after 30 years;** employees would be transferred to the defined contribution plan for any additional years of service accrued subsequent to September 30, 2010. This cap does not apply to service credit purchased by the employee. Employees currently exceeding 30 years of service would retain all service time accrued prior to this date, and would be vested immediately upon transfer into the defined contribution plan.

- Implement a **new more cost-effective hybrid plan for employees** hired on or after July 1, 2010. New employees will participate in both a defined benefit plan and a defined contribution plan. This plan will lower employer cost by approximately 1.41% for each new hire, while providing greater stability in the contribution rates going forward.

- Establish a **phased retirement option** whereby an employee can draw his or her public school pension, and reduce hours worked by at least 50% (1,040 hours maximum). This initiative would be available to employees age 60 and older; however, employee eligibility would be at the discretion of the school district. The option is for one year, but can be renewed annually for up to a total of three years.

- Provide a **limited retirement incentive** with the multiplier increased from 1.5% to 1.6% for public school employees eligible for a full retirement under current rules who retire between July 1, 2010 and September 1, 2010. All costs would be amortized over 5 years.

Due to these reforms, it is assumed that nearly 29,000 eligible public school employees will elect to retire, resulting in career opportunities for new teachers to enter the state workforce.

Assuming expedited legislative action, the retirement application window would be April 15, 2010 through May 15, 2010. Applicants would have the ability to rescind applications from May 16, 2010 through May 31, 2010. The new retirees would enter the pension system on the first of each month following their separation, beginning with July 1, 2010 and continuing through September 1, 2010.

Additional information on the public school pension reforms and retirement incentive is available on the Office of Retirement Services' website at www.michigan.gov/ors.

Fiscal Impact

The net savings to be realized by local school districts for these anticipated 29,000 retirees in fiscal year 2011 is estimated to be $701 million. The savings estimate assumes 75% of eligible employees will elect to retire. The assumed retiree replacement rate is 1:1.1 (or 90%). The estimate assumes pension costs are amortized over five years, and salary savings from less costly replacement employees. The cumulative net savings of the proposed reforms over ten years is nearly $6.4 billion.